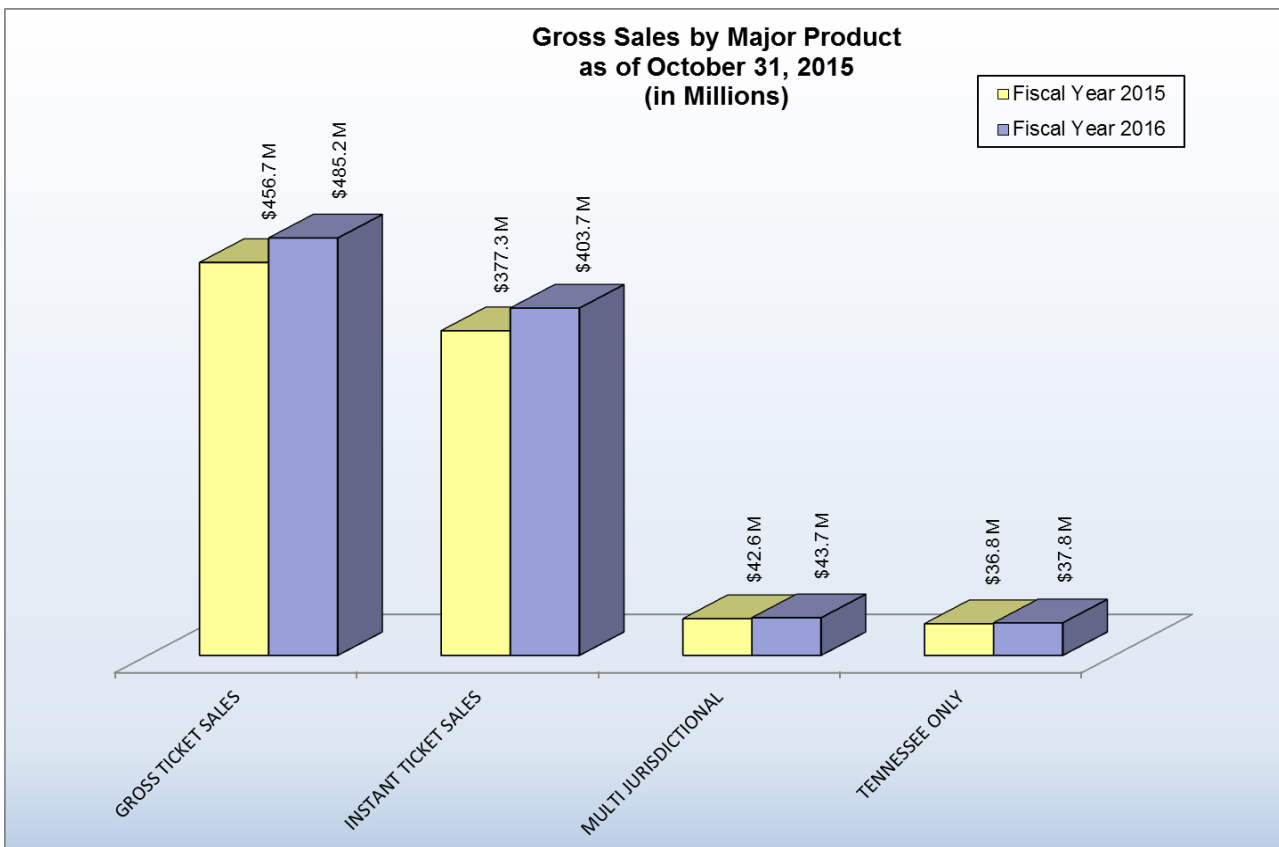


TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
November 13, 2015

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2016, 2017, 2018, 2019 AND 2020

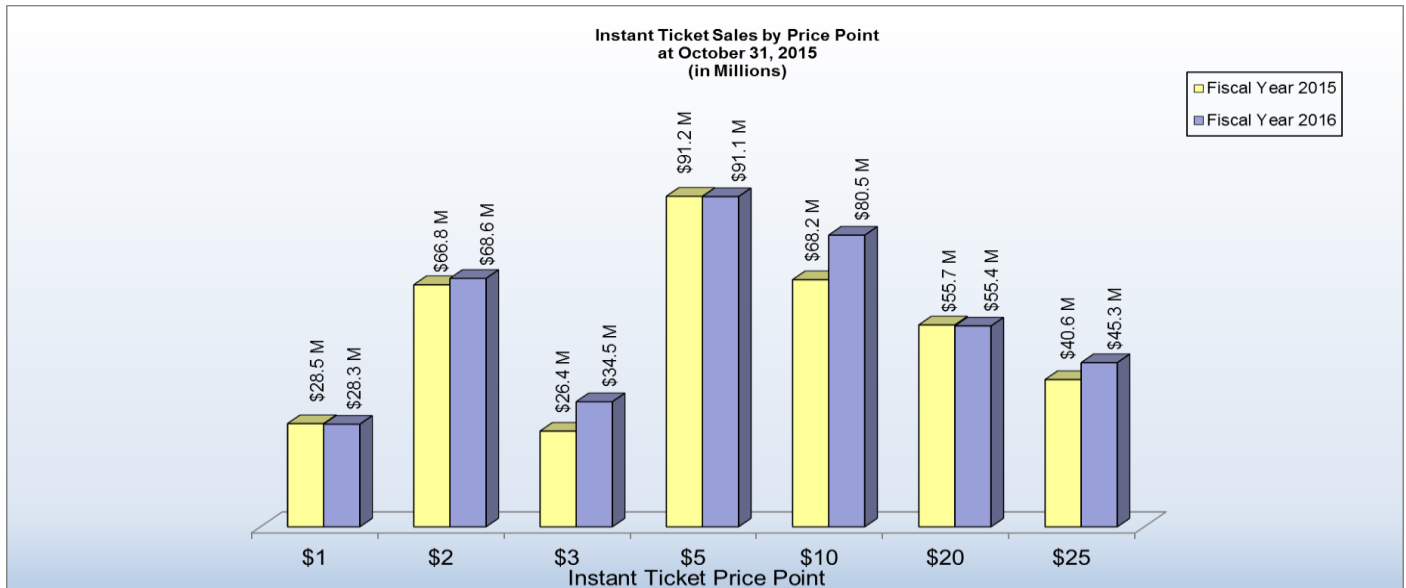
**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	As of 10/31/2014 (in millions)
Gross Sales	\$485	\$456
Weekly Average Sales	\$27.6	\$26.0
BY MAJOR PRODUCT:		
INSTANT GAMES	\$404	\$377
MULTIJURISDICTIONAL DRAW-STYLE GAMES		
Powerball	28	24
Mega Millions	11	13
Hot Lotto	4	5
	\$43	\$42
TENNESSEE DRAW-STYLE GAMES		
Cash 3	20	19
Cash 4	12	11
Tennessee Cash	6	7
	\$38	\$37



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
<i>INSTANT GAMES</i>	\$ 403.7	\$1,277 - \$1,287



- *Instant tickets* are 83% of our product mix at October 31, 2015.
- *Instant ticket sales* were \$403.7 million or \$22.9 million per week at October 31, 2015 compared to \$377.3 million or \$21.5 million per week the prior year, representing a 7% increase in instant ticket sales year over year.
- The current percentage of sales is primarily related to player preferences. TEL continues to see instant ticket sales increases driven by the success of launching families of games. At the \$3 price point, TEL added to the Jumbo Bucks family of games with Jumbo Bucks Bingo. Other price points, \$2, \$5 and \$10 saw growth related to the Jackpot and Mayhem families.
- Fiscal year 2016 *Instant tickets* are projected to be between \$1.277 billion and \$1.287 billion.
- TEL anticipates launching approximately 51 games in fiscal year 2016. The launch schedule will include similar themed games and families of games to maximize marketing and promotion efforts, including up to four special prints that will enhance visibility and playability options for these games.
- *Instant ticket* prize expense is projected at 67.7% for fiscal year 2016, which is consistent with the prior year.

TENNESSEE EDUCATION LOTTERY CORPORATION ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

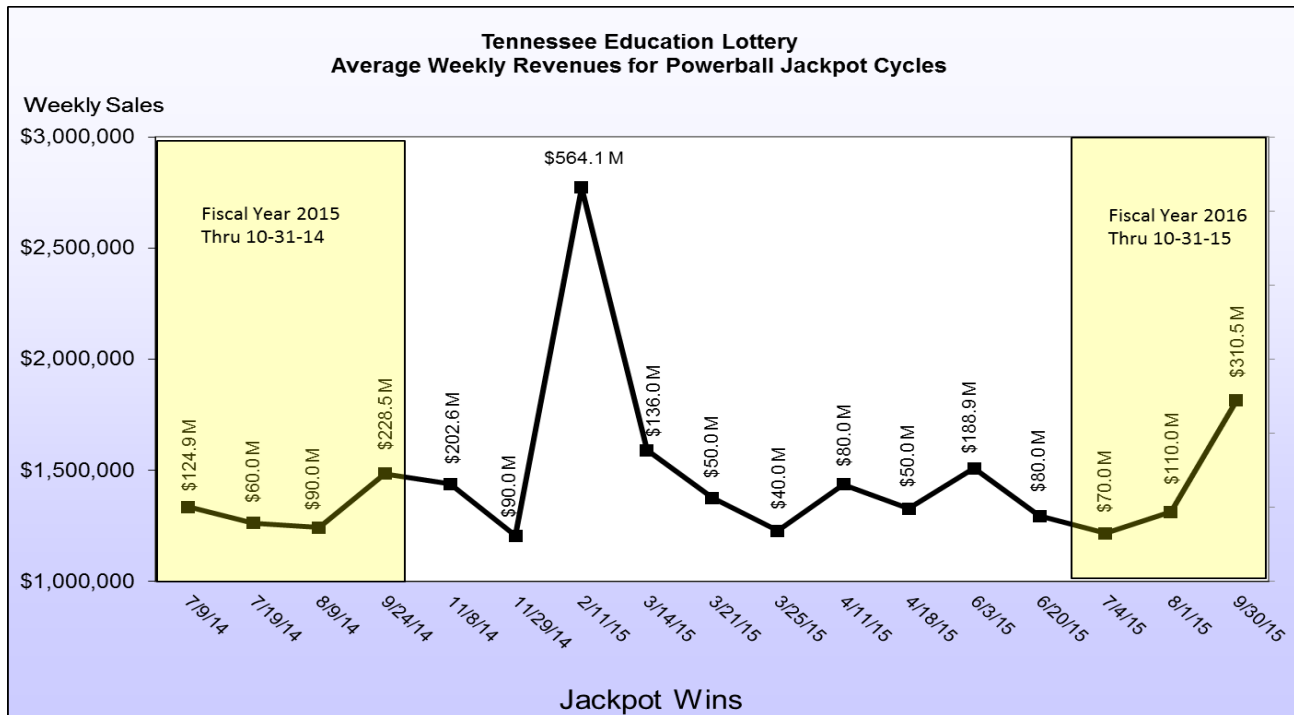
MULTI-JURISDICTIONAL GAMES

Multi-jurisdictional games, *Powerball*, *Mega Millions* and *Hot Lotto* were \$43.7 million at October 31, 2015 compared to \$42.6 million in the prior year, representing approximately 9% of gross sales.

Multi-jurisdictional sales year over year are directly impacted by the size of the games' jackpots.

	As of 10/31/2015 (<u>in millions</u>)	FY 2016 Projected Sales Range (<u>in millions</u>)
<i>POWERBALL</i>	\$28.0	\$84 - \$90

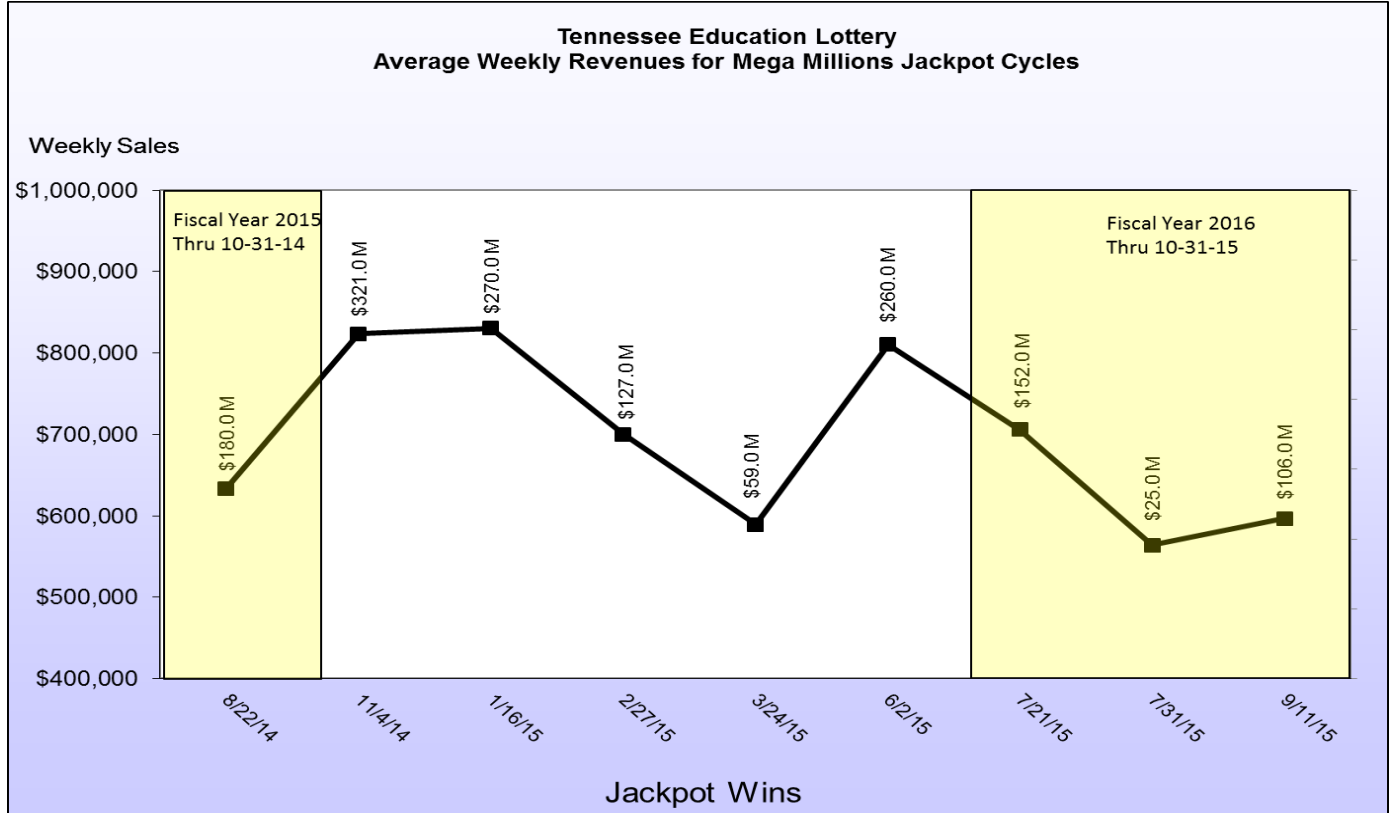
- *Powerball* is currently sold in 47 jurisdictions, including the District of Columbia, Puerto Rico and U.S. Virgin Islands.
- TEL's *Powerball* sales were \$28.0 million compared to the prior year's sales of \$24.1 million for the first four months. The increase primarily results from a \$310 million jackpot to date in the first four months of fiscal year 2016 compared to the first four months of the prior year.
- In October 2015, a game matrix change was implemented with the expectations of creating larger jackpot cycles.
- Our fiscal year 2016 high range projection includes one jackpot cycle reaching the \$500 million range.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
<i>MEGA MILLIONS</i>	\$11.3	\$34 - \$36

- *Mega Millions* is currently sold in 46 jurisdictions, including the District of Columbia and U.S. Virgin Islands.
- The fiscal year 2016 *Mega Millions* game to date has generated three jackpots below the expected average jackpot range of \$200 - \$225 million. As a result, sales are down 11% at this time.
- *Mega Millions* weekly sales are projected at \$650 thousand for the full fiscal year 2016 consistent with current sales trends.
- TEL does project the *Mega Millions* product to generate one or two jackpots of at least \$250 million to help reach the \$34 to \$36 million fiscal year 2016 sales range.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
<i>HOT LOTTO</i>	\$4.3	\$13.0 - \$15.0

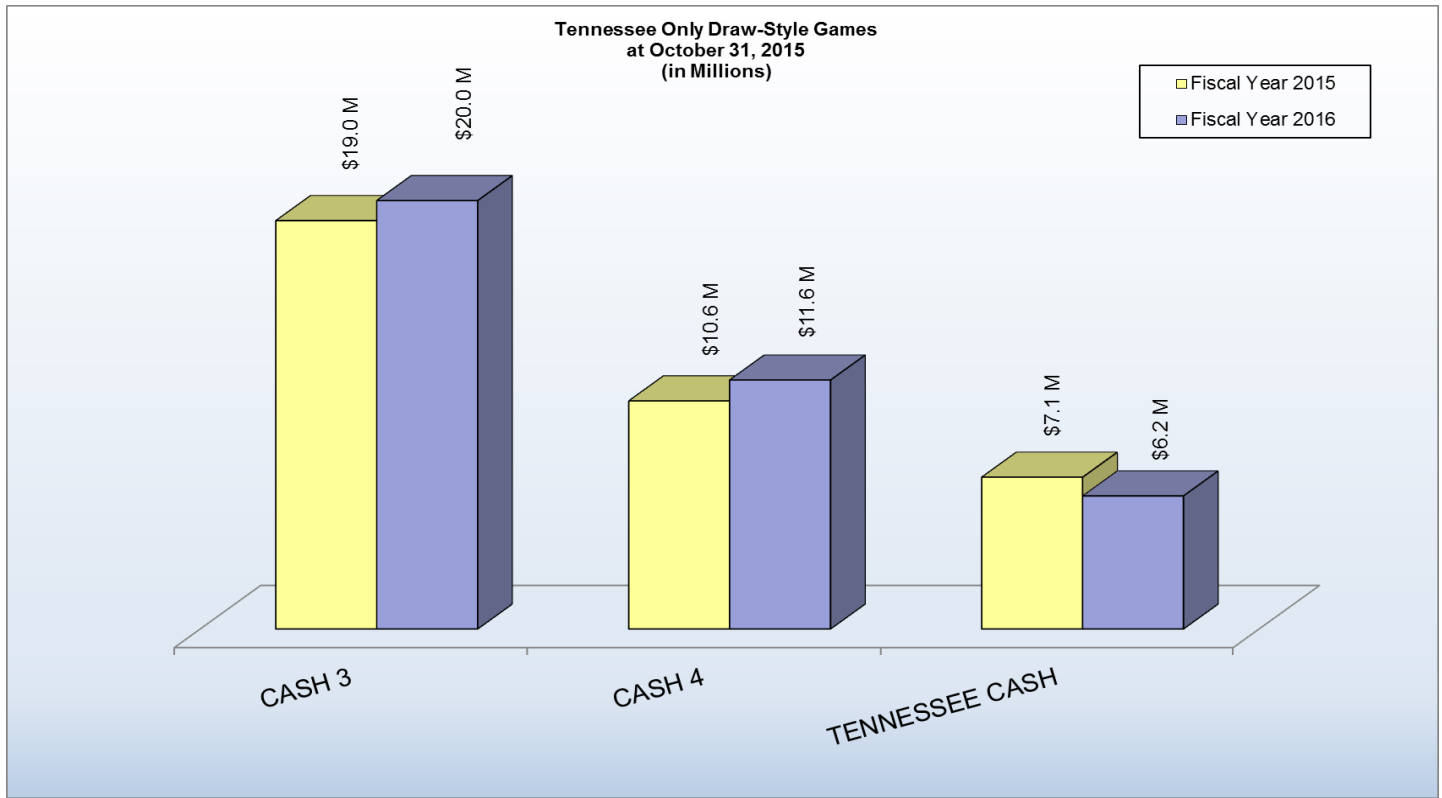
- *Hot Lotto* is currently sold in 15 jurisdictions, including the District of Columbia.
- *Hot Lotto*, at this time, features all cash (not annuitized) jackpots starting at \$1 million, with expected jackpot cycles between \$5 and \$6 Million.
- The last *Hot Lotto* jackpot won was on July 1, 2015 for \$9.8 million. That jackpot cycle generated incremental sales in May and June of fiscal year 2015. The current jackpot cycle for fiscal year 2016 is at \$3.4 million.
- TEL expects normal jackpot trending and a consistent revenue stream between \$250 to \$290 thousand weekly for the rest of fiscal year 2016.

	FY 2016 Projected Sales Range (in millions)
<i>CASH 4 LIFE</i>	\$9 - \$11

- *Cash 4 Life* is currently sold in 5 jurisdictions.
- The game launched November 1, 2015 in Tennessee, at a \$2 price point.
- The game provides the only drawing-style game with two opportunities for a lifetime prize:
 - * Top Prize is \$1,000 dollars a day for life!
 - * Second Prize is \$1,000 dollars a week for life!
- Players select five numbers from 1 to 60 and one CASH BALL® number from 1 to 4. If you match any of the 9 winning combinations - you win!
- Drawings are held on Monday and Thursday and can be viewed on TEL's website at tnlottery.com.
- The fiscal year 2016 projected sales range between \$9 -\$11 million is primarily based on sales data from the four states that have been selling the game, with no adjustment for possible cannibalization of TEL's existing draw-style games.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 10/31/2015 (in millions)	FY 2016 Projected Sales Range (in millions)
<i>TENNESSEE ONLY DRAWING-STYLE GAMES</i>	\$37.8	\$111 -\$116



At October 31, 2015, sales for this product category were \$37.8 million compared to the prior period's \$36.7 million, representing approximately 7.5% of gross sales.

Cash 3 and Cash 4

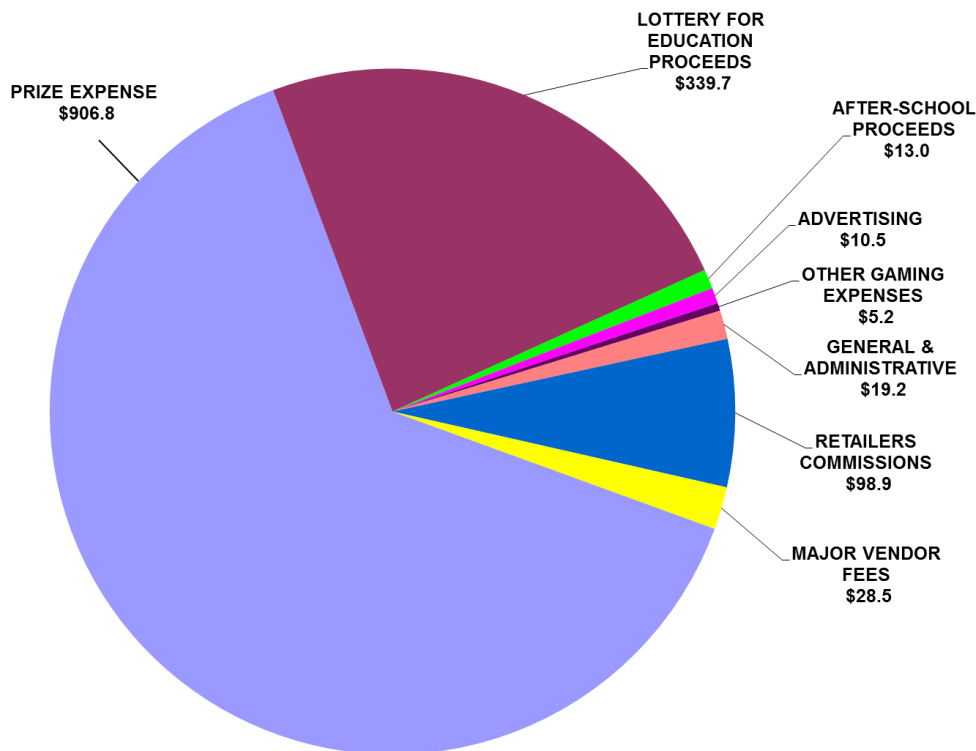
- *Cash 3* and *Cash 4* games are drawn three (3) times daily, six (6) days a week, and once on Sunday.
- In the first four months of fiscal year 2016, TEL has seen a net increase of 6.6% for the *Cash 3* and *Cash 4* products.
- TEL is projecting sales in the range of \$95 and \$98 million for the full fiscal year.

Tennessee Cash

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- Sales are driven primarily by the cash jackpots, with an average jackpot cycle of \$600 to \$700 thousand.
- TEL projects sales in fiscal year 2016 to be between \$16 and \$18 million.

TENNESSEE EDUCATION LOTTERY CORPORATION ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

FISCAL YEAR 2016 BUDGETED EXPENSES (in millions)



Direct Gaming-Related Expenses

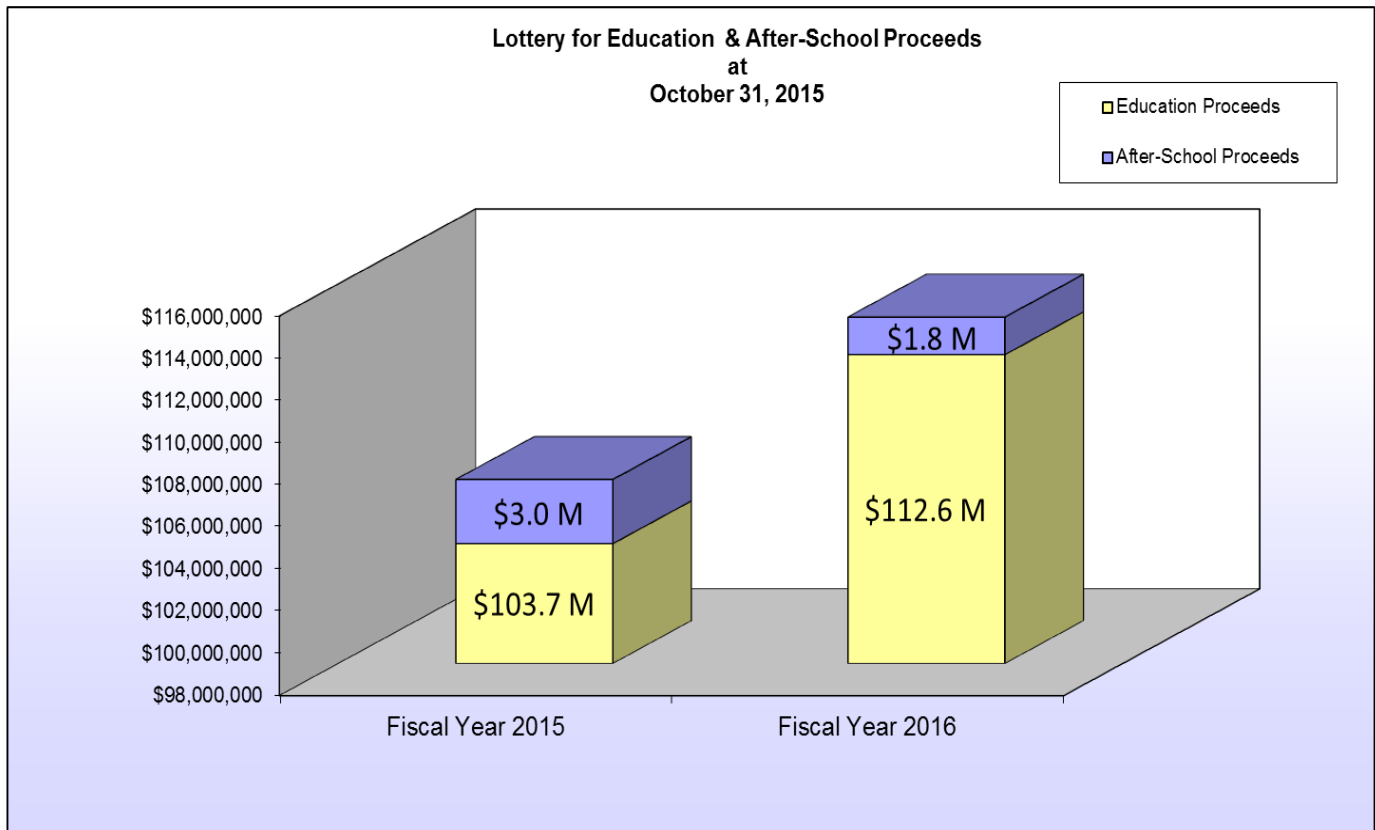
- Aggregate Prize Expense for all Games is projected at **59.8%** of Total Revenues.
- Aggregate Prize Expense for Instant Games is projected at **67.7%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Major gaming vendors' fees are a percentage of sales per the terms of each contract. In fiscal year 2015, TEL negotiated lower fees of 1.199% for IGT and .8998% for Sci Games as a result of a Request for Proposal for draw style games/related services and instant ticket/related services, respectively.

The new rates went into effect on July 1, 2014 and January 4, 2015, respectively. For fiscal year 2016, we project savings of approximately \$3 million under the new contract rates.

Non-Direct Expenses

- Non-direct expenses are budgeted at **\$34.9** million or **2.3%** of Gross Sales.
 - Advertising expenses are budgeted at **\$ 10.5** million.
 - Other Gaming expenses are budgeted at **\$ 5.2** million.
 - General and Administrative expenses are budgeted at **\$ 19.2** million.

TENNESSEE EDUCATION LOTTERY CORPORATION ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS



Lottery for Education Proceeds

- \$112.6 million as of 10/31/2015
- \$103.7 million as of 10/31/2014

Projected Fiscal Year 2016

\$342 million - \$350 million

After-School Program Proceeds

- \$1.8 million as of 10/31/2015
- \$3.0 million as of 10/31/2014
- Represents actual/realized unclaimed monies
- Significantly impacted by:
 - 1) timing of instant games' closings
 - 2) large drawing-style game prizes not claimed

Projected Fiscal Year 2016

\$12- 13 million

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

	FY 16	FY 16	FY 16	FY 16	
	Actuals at	Low	High	Approved	FY 2015
	10/31/15	Projections	Projections	Budget	Actuals
Instant Ticket Sales	\$ 403,673,000	\$ 1,277,500,000	\$ 1,287,250,000	\$ 1,265,602,000	\$ 1,220,122,000
Tennessee Only	37,799,000	111,750,000	115,750,000	109,000,000	111,832,000
Multi Jurisdictional	43,706,000	140,250,000	152,750,000	141,500,000	143,832,000
GROSS TICKET SALES	\$ 485,178,000	\$ 1,529,500,000	\$ 1,555,750,000	\$ 1,516,102,000	\$ 1,475,786,000
Less: Tickets Provided as Prizes	\$ (35,731,000)	\$ (111,412,000)	\$ (112,442,000)	\$ (110,651,000)	\$ (106,854,000)
Net Ticket Sales	\$ 449,447,000	\$ 1,418,088,000	\$ 1,443,308,000	\$ 1,405,451,000	\$ 1,368,932,000
Other Revenue	1,311,000	3,632,000	3,632,000	3,632,000	4,050,000
TOTAL LOTTERY PROCEEDS	\$ 450,758,000	\$ 1,421,720,000	\$ 1,446,940,000	\$ 1,409,083,000	\$ 1,372,982,000
DIRECT EXPENSES					
Prize Expense	288,578,000	916,179,000	930,936,000	906,833,000	881,104,000
Retailer Commissions	31,653,000	99,788,000	101,503,000	98,901,000	96,338,000
Vendor Fees	8,995,000	28,830,000	29,224,000	28,571,000	28,348,000
Direct Expense	\$ 329,226,000	\$ 1,044,797,000	\$ 1,061,663,000	\$ 1,034,305,000	\$ 1,005,790,000
Non-Direct Expenses	\$ 8,887,000	\$ 35,061,000	\$ 35,061,000	\$ 35,061,000	\$ 31,254,000
TOTAL EXPENSES	\$ 338,113,000	\$ 1,079,858,000	\$ 1,096,724,000	\$ 1,069,366,000	\$ 1,037,044,000
LOTTERY FOR EDUCATION PROCEEDS	\$ 112,645,000	\$ 341,862,000	\$ 350,216,000	\$ 339,717,000	\$ 335,938,000
AFTER SCHOOL PROGRAMS	\$ 1,778,000	\$ 12,000,000	\$ 13,000,000	\$ 13,000,000	\$ 11,847,000

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEARS ENDING JUNE 30, 2017, 2018, 2019 and 2020

		Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Total Lottery Proceeds		\$1,576- \$1,600 Million	\$1,600- \$1,636 Million	\$1,636- \$1,663 Million	\$1,663- \$1,700 Million
Lottery for Education Proceeds		\$348 - \$357 Million	\$355- \$366 Million	\$362- \$375 Million	\$369- \$384 Million
After-School Programs Proceeds		\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million	\$15 - \$16 Million

Lottery for Education Proceeds

Over the last five (5) fiscal years, TEL's average annual Lottery for Education Proceeds growth was 3.5 % compared to the lottery industry's beneficiary funding growth of 1.5%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we project Lottery for Education proceeds growth in Fiscal Years 2017, 2018, 2019 and 2020 to average a low of 2% to a high of 2.5% annually.

After-School Programs Proceeds

After-School Programs Proceeds are projected based on the five year historical unclaimed prize experience of slightly less than 1.6% of prize expense, excluding the highest and lowest growth years to adjust for anomalies.